MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BFN3034 – BEHAVIOURAL FINANCE

(All sections / Groups)

15 OCTOBER 2019
2.30 pm – 4.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of TWO (2) pages excluding cover page.

2. Answer ALL questions. The marks for each section are given in the question paper.

3. Please write your answers for all the questions in the answer booklet.

Answer ALL Questions

Question 1

(a) Identify and briefly explain each of behavioral biases for the statement below.

(i) Investors are so fearful of losses that they focus on trying to avoid a loss more so than on making gains.

(5 marks)

(ii) Investors automatically assume that good companies make good investments or analysts forecasting future results based on historical performance.

(5 marks)

(iii) People rely too much on pre-existing information or the first information they find when making decisions.

(5 marks)

(iv) Investors' tendency to follow and copy what other investors are doing and they are largely influenced by emotion and instinct, rather than by their own independent analysis.

(5 marks)

(b) Compare and contrast Efficient Market Hypothesis (EMH) with behavioral finance.

(15 marks)

(Total: 35 marks)

Question 2

(a) Explain the safe and unsafe assets in Shleifer model.

(10 marks)

(b) Describe the two main players in Shleifer model.

(10 marks)

(c) Discuss what Shleifer model had accomplished and explain why the model is important.

(10 marks)

(Total: 30 marks)

Continued...

Question 3

(a) Behavioral finance suggests that investors possess information processing errors. Explain the importance of information processing errors and discuss the four processing errors.

(25 marks)

(b) Compare illusion of superiority with conjuction fallacy.

(10 marks)

(Total: 35 marks)

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